STATEMENT

ON

THE IMPACT OF THE SEPTEMBER 11, 2001 TERRORIST ATTACKS ON THE U.S. INSURANCE AND REINSURANCE INDUSTRY

BY

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Chairman Oxley and members of the Financial Services committee, it is an honor to appear before you on behalf of General Re Corporation and the Reinsurance Association of America ("RAA").

Our sympathy and condolences go to the families and friends who suffered tragic losses in the September 11 terrorist attacks on our country. We also express our deep gratitude and respect for the courageous emergency services, military personnel and volunteers for their heroic efforts in this time of great national pain.

General Re, a wholly owned subsidiary of Berkshire Hathaway Inc., is among the four largest reinsurers in the world, and a market leader in the U.S. RAA represents United States domestic property and casualty reinsurers.

While General Re is also in the life reinsurance business, I'm here today to talk mainly about the property and casualty insurance and reinsurance business.

As you may know, reinsurance is a sophisticated commercial transaction in which a reinsurer, for a premium, indemnifies another insurer for all or part of a loss that it may sustain. The fundamental objective of insurance – to spread risk of loss – is enhanced by an insurer's ability to further spread that risk through reinsurance.

The key reasons for an insurer to purchase reinsurance are: (1) to reduce liability on a specific risk, (2) to smooth volatility and stabilize loss experience, (3) to protect against large losses, (4) to increase capacity in order to write more business, and (5) to have a thought and risk partner on large or complex risks. The extent to which an insurer or reinsurer will use reinsurance, for one or all of these purposes, is determined by the insurer or reinsurer after assessing its own exposure to loss and its own capital resources.

This system has been very successful over time, enabling the U.S. insurance and reinsurance industry to absorb significant losses while continuing to provide needed insurance protection for American consumers and businesses.

The terrorist attacks of September 11, 2001 resulted in unprecedented losses of life, personal injury and property damage. It is difficult to estimate the losses that the U.S. property and casualty insurance and reinsurance industry will sustain from those terrorist events. In addition to the normal problems involved in estimating large or catastrophic losses, in this case there may be liability issues that may take years to fully resolve.

Assessing the collectibility of some reinsurance may present another difficulty in estimating total losses. If an assuming reinsurer fails or refuses to pay, the ceding insurer remains fully liable for its underlying insurance policy obligations. The important point I am making here is that reinsurance is not a direct offset to the insurer's obligation. Reinsurance is more in the nature of a partial hedge and does not change the size or nature of the ceding insurer's original contractual obligations to its policyholders or claimants.

In the face of these difficulties in estimating losses, some recent analysts' reports have suggested that $25 billion to $40 billion of total insured losses is a reasonable range of estimated total insured losses from the September 11 terrorist attacks. Some analysts have even suggested that the insured losses could exceed the numbers I just mentioned.

The total capital and surplus of the U.S.insurance and reinsurance industry is [about] slightly under $300 billion at June 30, 2001. That capital is made up of required regulatory risk-based capital, as well as the additional capital needed to meet the reasonable expectations of policyholders and claimants – our consumers if you will, rating agencies, stockholders and others.

That industry capital was already allocated to non-terrorist operating and financial risks prior to the September 11 terrorist attacks. None of that industry capital was derived from risk charges for terrorism insurance coverage. To the best of our knowledge and belief, no premiums were collected for terrorist insurance coverages and no reserves were allocated to such claims prior to September 11, 2001. As a result, payment of losses from the attacks will necessarily be funded from the capital that supported insurers' other operating, underwriting and financial risks.

The exposure to loss from the September 11 terrorist attacks is not spread evenly across the total insurance industry capital base. As you can see from Exhibit A, the affected insurers and reinsurers (U.S. and non-U.S.) have a combined total capital base of about $123 billion. That capital, while arguably needed to support other underwriting and balance sheet risks, obviously can fund a total insured loss of $25 billion to $30 billion – or even larger.

I believe that the U.S. insurance and reinsurance industry will be able to meet its policy and contract obligations, and to pay the losses arising out of the September 11 terrorist attacks, without the need for a bailout from the federal government. We're all here today to tell you that so far as we can tell the industry is intent on doing just that. Most knowledgeable observers of the insurance and reinsurance industry (such as the rating agencies and the analyst community) believe that most of the exposures from this event are with large, well capitalized, insurers and reinsurers and that the U.S. insurance and reinsurance industry can and will meet its obligations arising from this event.

However, there are serious issues going forward. The simple fact is that the U.S. insurance and reinsurance industry on its own can't afford to take on the potentially unlimited exposure to loss arising from insuring against terrorist acts. The capital base I've described, while able to absorb the losses from the September 11 attacks, won't be able to sustain multiple events like those attacks.

We support and applaud the steps that the government is taking to combat terrorism. But until those efforts have borne the fruit of significant reduction in the potential for terrorist attacks, it is close to impossible for many insurers and reinsurers to responsibly underwrite or assume terrorism risk. That is why we need to explore alternative reparations or back-up systems to cover losses arising from war and terrorism. As we have all learned from the events of September 11, the line between war and terrorism is increasingly ambiguous.

Monday's Wall Street Journal (9/24/01, p. B1)featured this quote from Warren Buffett, Berkshire's chairman:

> I think in the future, the government is going to have to be the ultimate insurer for acts of terrorism…..An industry with very large, but finite, resources is not equipped to handle infinite losses.

While we're here today to talk about how our industry can and will respond to the losses arising out of the September 11 terrorist attacks, I must at the same time urge the Financial Services Committee and the Congress to take up as soon as possible the important question of how to provide insurance against terrorist acts in a way that assures both the continued financial viability of the U.S. insurance and reinsurance industry and the continued availability and affordability of the wide range of products and services provided by that industry.

While I realize we do not have time today to take up specific proposals on that subject, we do offer you and your staffs our continuing assistance in finding the answer to that important question – so we can all move forward together.

I'm grateful for the opportunity to speak to you today, and would be pleased to answer any questions you may have.

Exhibit A

United States Insurance Industry Capital & Surplus ($US billions)		
	Consolidated Property & Casualty Industry Surplus (June 30, 2001)	$ 298
less	Personal Lines Policyholders' Surplus	(131)
less	Berkshire Hathaway Policyholders' Surplus	(36)
less	Estimated Decrease in Common Stock Values (after-tax)*	0
	Adjusted Commercial U.S. Insurance Property & Casualty Policyholders' Surplus	**$ 131**

* From July 2, 2001 through September 24, 2001